



MBHASHE LOCAL MUNICIPALITY (EC 121)  
ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## General Information

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### Nature of business and principal activities

The Municipality is responsible for the following activities:-

- collection of rates in respect of property taxes;
- refuse and solid waste removal;
- construction and maintenance of access roads, storm water facilities and streetlights within its jurisdiction; and
- traffic control, issue of learners licences and renewal of drivers licences, law enforcement activities.

The following is the list of Councillors as at 28 February 2019

### TROIKA

Mayor

Speaker

Members of the Mayoral Committee

Cllr S.Janda

Cllr B. Majavu

Cllr C Genyane

Cllr M. Mbomvu

Cllr MM Mcotsho

Cllr XO Willie

Cllr NM Mlandu

Cllr N Mkhedamo

Cllr N Nkomonye

Cllr N Ngomthi

Cllr L Mantshiyose

Cllr S. Sibingibingi

Cllr P Rulumeni

Cllr VN Kwedinana

Cllr LL Sangqu

Cllr NO Sogayise

Cllr P Mamba

Cllr N Nqwena

Cllr S Mwahla

Cllr B Jamnda

Cllr LM Soshankane

Cllr NE Mbane

Cllr M Peter

Cllr P Bhungu

Cllr T Tshika

Cllr S Mantshingilane

Cllr W Namba

Cllr L Mahobe

Cllr SD Sicengu

Cllr ST Sitwayi

Cllr S Mrobo

Cllr S Ndinisa

Cllr V Matiwane

Cllr N Magatya

Cllr NB Sirunu - Ntunga

Cllr NN Mboxela

Cllr NA Tyali

Cllr P. Mayiji

Cllr PP Kondile

Cllr N Ncethani

Cllr M.W Jiya

Chief WHIP

Councillors

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

## **General Information**

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	<div>Clr XP Baleni Clr N Ganda Clr SC Livi Clr B Siswana Clr M Tetyana Clr KD Msindwana Clr M Takani Clr L Matili Clr WM Solontsi Clr Y.G. Mhlathi Clr N Mahlathi Clr N Tyelingane Clr M Tshaka Clr T Goniwe Mafanya Clr NT Tafeni Clr S Ndikinda Clr Mtyapi Clr P Makeleni Clr NN Ndlodaka</div>
Grading of local authority	3
Municipal Manager	Mr M. Nako
Chief Finance Officer	Mr X. Sikobi
Section 79 Chairpersons	<div>Clr SD Kaliti (MPAC Chair) Clr MK Makapela (Ethics and Members Interest Chair) Clr X Tyhodana (Women's Caucus Chair)</div>
Registered office	<div>454 Steatfield Road Dutywa 5000</div>
Postal address	<div>P.O. Box 25 Dutywa 5000</div>
Bankers	First National Bank (62231175953)
Auditors	Auditor General South Africa
Attorneys	<div>Nginda Attorneys Tonise Attorneys Vitshima Attorneys M Gigaba Incorporated NT Vuba Incorporated Siyathemba Sokutu Attorneys Smith Tabata Attorneys</div>

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

## **General Information**

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### **Traditional Leaders**

Chief N.M Masiko  
Chief N.W Salakuphathwa  
Chieftain A. N. Sigcawu  
Chief F. F. Ndim  
Chief S. Nyendani  
Chief N. Ngubechanti  
Chief N. W. Zenani  
Chief L. Mtwesi  
Chief A. Dudumayo  
Chieftain N. Sofika  
Chief P. Fudumele  
Chief S. Ntlokondala

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## General Information

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### Relevant Legislation

Basic Conditions of Employment Act 75 of 1997  
Broad Based Black Economic Empowerment Act 53 of 2003  
Constitution of the Republic of South Africa Act, 1996  
Deeds Registries Act 47 of 1937  
Disaster Management Act 57 of 2002  
Division of Revenue Act 10 of 2014  
Electoral Act 73 of 1998  
Electoral Commission Act 51 of 1996  
Intergovernmental Relations Framework Act 13 of 2005  
Interim Protection of Informal Lands Rights Act 31 of 1996  
Labour Relations Act 66 of 1995  
Local Government : Municipal Demarcation Act 27 of 1998  
Local Government : Municipal Electoral Act 27 of 2000  
Local Government : Municipal Finance Management Act 56 of 2003  
Local Government : Municipal Property Rates Act 6 of 2004  
Local Government : Municipal Structures Act 117 of 1998 (as amended)  
Local Government : Municipal Systems Act 32 of 2000 (as amended by Act 44 of 2003)  
Local Government : Municipal Fiscal Powers and Functions Act No 12 of 2007  
Prescription Act 18 of 1943  
Prescription Act 68 of 1969  
Prevention and Combating of Corrupt Activities Act  
Prevention of Illegal eviction from an Unlawful Occupation of Land Act 19 of 1998  
Promotion of Access to Information Act 2 of 2000  
Promotion of Administrative Justice Act 3 of 2000  
Promotion of Equality and Prevention of Unfair Discrimination Act 4 of 2000  
Protected disclosures Act 26 of 2000  
Public Audit Act 25 of 2004  
Re-Determination of the Boundaries of Cross-Boundary Municipality Act 6 of 2005  
Reconstruction and Development Program Fund Act 7 of 1994  
Regional Services Councils Act 109 of 1985  
Regulation of Gatherings Act 205 of 1993  
Removal of Restrictions Act 84 of 1967  
Remuneration of Public Office Bearers Act 20 of 1998  
Skills Development Act 97 of 1998  
Skills Development Levies Act 9 of 1999  
South African National Roads Agency Limited and National Roads Act 7 of 1998  
Tobacco Products Control Act 83 of 1993  
Traditional Leadership and Governance Framework Act 41 of 2003  
Transfer of Staff to Municipalities Act 17 of 1998  
Unemployment Insurance Act 63 of 2001  
United Municipal Executive (Pension) Act 12 of 1958  
Value Added Tax 1991

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

## **Index**

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The reports and statements set out below comprise the annual financial statements presented to the council.

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### **Abbreviations**

AFS	Annual Financial Statements
EPWP	Extended Public Works Programme
FMG	Financial Management Grant
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
PPE	Property, Plant and Equipment
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MPAC	Municipal Public Accounts Committee
MSIG	Municipal Systems Improvement Grant
SARS	South African Revenue Service
VAT	Value Added Tax

## MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

### Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

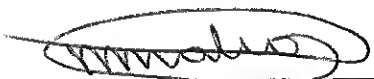
The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, he sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviours are applied and managed within predetermined procedures and constraints. Salaries, allowances and benefits to public office bearers and Councillors of the municipality were within the upper limits of the framework envisaged in Section 219 of the Constitution.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on page 5 to 62, which have been prepared on the going concern basis, were approved by the Council on 28 August 2019 and were signed on its behalf by:

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Mr M. Nako  
Municipal Manager

Dutywa

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Officer's Report**

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The accounting officer submits his report for the year ended 30 June 2019.

### **1. Review of activities**

#### **Main business and operations**

The municipality is responsible for the following activities:

- collection of rates in respect of property rates;
- refuse and solid waste removal;
- construction and maintenance of access roads, storm water facilities and streetlights within its jurisdiction;
- traffic control, law enforcement activities, issue of learners licences and renewal of drivers licences and operates principally in South Africa.

### **2. Going concern**

We draw attention to the fact that at 30 June 2019, the municipality had accumulated surplus of 598 012 407 and that the municipality's total assets exceed its liabilities by 598 012 407.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to enforce strict cash flow management to oversee the operations for the municipality. The municipality faced short term liquidity challenges that were due to undercollection in revenue projections, this resulted in inability to settle short term commitments within 30 days. annual financial statements municipality The municipality had an improved liquidity position due to the overcollection in revenue projections and also stringent cost containment measures, this has resulted in the municipal having ability to meet short term commitments within 30 days, this is evident by the reduction of trade payables by 43% when compared to the previous year.

### **3. Subsequent events**

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

### **4. Accounting Officer's Interest in contracts**

The Accounting Officer does not have any interest in the contract that the municipality has with various suppliers for procuring goods and/or services.

### **5. Borrowing potential**

The current ratio is slightly above 1. This signifies the progress made in the past financial year, with the municipality passing a more leaner budget with realistic targets. The cash and cash equivalents were more than trade payables at year end.

Our assets versus liabilities show that we have huge potential for borrowing which the municipality is currently not exploring. This option will only be taken to fund borrowings for income-generating assets with the objective of generating a commercial return.



**MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

**Statement of Financial Position as at 30 June 2019**

Figures in Rand	Note(s)	2019	2018
<b>Assets</b>			
Current Assets			
Receivables from exchange transactions	8	392 534	362 182
Receivables from non-exchange transactions	9	978	52 496
VAT receivable	10	6 535 673	3 818 791
Consumer debtors	11	9 217 790	4 297 869
Cash and cash equivalents	12	17 281 573	6 223 493
		<b>33 428 548</b>	<b>14 754 831</b>
Non-Current Assets			
Investment property	2	33 511 900	33 511 900
Property, plant and equipment	3	567 885 261	553 977 622
Intangible assets	4	1 313 182	1 730 318
Heritage assets	5	9	9
		<b>602 710 352</b>	<b>589 219 849</b>
<b>Total Assets</b>		<b>636 138 900</b>	<b>603 974 680</b>
<b>Liabilities</b>			
Current Liabilities			
Payables from exchange transactions	15	18 502 290	29 886 658
Employee benefit obligation	7	631 185	496 797
Unspent conditional grants and receipts	13	5 624 274	-
		<b>24 757 749</b>	<b>30 383 455</b>
Non-Current Liabilities			
Employee benefit obligation	7	4 288 244	3 828 917
Provisions	14	9 080 500	8 415 116
		<b>13 368 744</b>	<b>12 244 033</b>
<b>Total Liabilities</b>		<b>38 126 493</b>	<b>42 627 488</b>
<b>Net Assets</b>		<b>598 012 407</b>	<b>561 347 192</b>
Accumulated surplus		598 012 407	561 347 192

**MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

**Statement of Financial Performance**

Figures in Rand	Note(s)	2019	2018
<b>Revenue</b>			
Service charges	17	912 221	673 224
Rental of facilities and equipment	18	3 290 203	3 312 764
Interest received (trading)	16	1 923 504	2 621 875
Other income	20	3 246 536	2 473 876
Interest earned	21	3 252 067	2 486 447
Assessment rates	22	11 396 251	9 693 917
Licence and permits		2 355 651	1 293 360
Grants and subsidies	23	311 575 340	299 118 709
Fines and penalties		1 084 446	2 497 708
<b>Total revenue</b>		<b>339 036 219</b>	<b>324 171 880</b>
<b>Expenditure</b>			
Employee related costs	24	(121 544 497)	(121 884 355)
Remuneration of Councillors	25	(25 618 098)	(25 088 557)
Depreciation and amortisation	26	(55 509 499)	(57 441 881)
Finance costs	27	(849 412)	(1 920 007)
Debt Impairment	28	(557 855)	(3 387 397)
Administrative and other expenditure	29	(101 248 142)	(113 823 310)
<b>Total expenditure</b>		<b>(305 327 503)</b>	<b>(323 545 507)</b>
<b>Operating surplus</b>		<b>33 708 716</b>	<b>626 373</b>
Profit/(Loss) on disposal of assets		(49 392)	-
<b>Surplus for the year</b>		<b>33 659 324</b>	<b>626 373</b>

**MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

**Statement of Changes in Net Assets**

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	560 720 819	560 720 819
Changes in net assets	-	-
<b>Balance at 01 July 2017 as restated*</b>	<b>560 720 819</b>	<b>560 720 819</b>
Changes in net assets		
Surplus/(Deficit) for the year	626 373	626 373
Total changes	626 373	626 373
<b>Balance at 01 July 2018 restated</b>	<b>564 353 083</b>	<b>564 353 083</b>
Changes in net assets		
Surplus/(Deficit) for the year	33 659 324	33 659 324
Total changes	33 659 324	33 659 324
<b>Balance at 30 June 2019</b>	<b>598 012 407</b>	<b>598 012 407</b>

**MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

**Cash Flow Statement**

Figures in Rand	Note(s)	2019	2018
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		10 142 065	8 023 818
Grants		317 199 614	299 118 709
Interest income		3 252 067	2 486 447
Other receipts		3 969 751	11 059 679
		<u>334 563 497</u>	<u>320 688 653</u>
<b>Payments</b>			
Employee costs		(147 487 534)	(147 272 328)
Suppliers		(106 221 700)	(114 731 020)
Finance costs		(849 412)	(1 920 007)
		<u>(254 558 646)</u>	<u>(263 923 355)</u>
<b>Net cash flows from operating activities</b>	<b>31</b>	<b><u>80 004 851</u></b>	<b><u>56 765 298</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(68 935 067)	(52 952 272)
Proceeds from sale of property, plant and equipment	3	(11 704)	-
<b>Net cash flows from investing activities</b>		<b><u>(68 946 771)</u></b>	<b><u>(52 952 272)</u></b>
<b>Cash flows from financing activities</b>			
Finance lease payments		-	(11 225 009)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>11 058 080</b>	<b>(7 411 983)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>6 223 493</b>	<b>13 635 476</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>12</b>	<b><u>17 281 573</u></b>	<b><u>6 223 493</u></b>

**MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

**Statement of Comparison of Budget and Actual Amounts**

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	1 300 000	-	1 300 000	912 221	(387 779)	44.1
Rental of facilities and plant equipment	6 500 000	-	6 500 000	3 290 203	(3 209 797)	44.2
Interest received (trading)	-	-	-	1 923 504	1 923 504	44.3
Other income	2 500 000	-	2 500 000	3 246 536	746 536	44.4
Interest received - investment	3 000 000	-	3 000 000	3 252 067	252 067	44.5
<b>Total revenue from exchange transactions</b>	<b>13 300 000</b>	<b>-</b>	<b>13 300 000</b>	<b>12 624 531</b>	<b>(675 469)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	5 700 000	-	5 700 000	11 396 251	5 696 251	44.6
Licenses and permits	3 000 000	(2 000 000)	1 000 000	2 355 651	1 355 651	44.7
<b>Transfer revenue</b>						
Government grants & subsidies	311 314 000	-	311 314 000	311 575 340	261 340	44.8
Fines, Penalties and Forfeits	3 000 000	(1 000 000)	2 000 000	1 084 446	(915 554)	44.9
<b>Total revenue from non-exchange transactions</b>	<b>323 014 000</b>	<b>(3 000 000)</b>	<b>320 014 000</b>	<b>326 411 688</b>	<b>6 397 688</b>	
<b>Total revenue</b>	<b>336 314 000</b>	<b>(3 000 000)</b>	<b>333 314 000</b>	<b>339 036 219</b>	<b>5 722 219</b>	
<b>Expenditure</b>						
Personnel	(107 640 074)	-	(107 640 074)	(121 544 497)	(13 904 423)	44.10
Remuneration of councillors	(24 667 638)	-	(24 667 638)	(25 618 098)	(950 460)	44.11
Depreciation and amortisation	(70 000 000)	-	(70 000 000)	(55 509 499)	14 490 501	44.12
Finance costs	-	-	-	(849 412)	(849 412)	44.13
Debt impairment	(1 010 344)	-	(1 010 344)	(557 855)	452 489	44.14
General Expenses	(149 978 447)	(2 500 000)	(152 478 447)	(101 248 142)	51 230 305	44.15
<b>Total expenditure</b>	<b>(353 296 503)</b>	<b>(2 500 000)</b>	<b>(355 796 503)</b>	<b>(305 327 503)</b>	<b>50 469 000</b>	
<b>Operating surplus</b>	<b>(16 982 503)</b>	<b>(5 500 000)</b>	<b>(22 482 503)</b>	<b>33 708 716</b>	<b>56 191 219</b>	
Loss on disposal of assets and liabilities	-	-	-	(49 392)	(49 392)	
<b>Surplus</b>	<b>(16 982 503)</b>	<b>(5 500 000)</b>	<b>(22 482 503)</b>	<b>33 659 324</b>	<b>56 141 827</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(16 982 503)</b>	<b>(5 500 000)</b>	<b>(22 482 503)</b>	<b>33 659 324</b>	<b>56 141 827</b>	

**MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

**Statement of Comparison of Budget and Actual Amounts**

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Receivables from exchange transactions	-	-	-	392 534	392 534	44.16
Receivables from non-exchange transactions	-	-	-	978	978	44.17
VAT receivable	-	-	-	6 535 673	6 535 673	44.18
Consumer debtors	-	-	-	9 217 790	9 217 790	44.19
Cash and cash equivalents	-	-	-	17 281 573	17 281 573	44.20
	-	-	-	33 428 548	33 428 548	
<b>Non-Current Assets</b>						
Investment property	-	-	-	33 511 900	33 511 900	44.21
Property, plant and equipment	62 387 846	-	62 387 846	567 885 261	505 497 415	44.22
Intangible assets	-	-	-	1 313 182	1 313 182	44.22
Heritage assets	-	-	-	9	9	
	62 387 846	-	62 387 846	602 710 352	540 322 506	
<b>Total Assets</b>	<b>62 387 846</b>	<b>-</b>	<b>62 387 846</b>	<b>636 138 900</b>	<b>573 751 054</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payables from exchange transactions	-	-	-	18 502 290	18 502 290	44.23
Employee benefit obligation	-	-	-	631 185	631 185	44.24
Unspent conditional grants and receipts	-	-	-	5 624 274	5 624 274	
	-	-	-	24 757 749	24 757 749	
<b>Non-Current Liabilities</b>						
Employee benefit obligation	-	-	-	4 288 244	4 288 244	44.25
Provisions	-	-	-	9 080 500	9 080 500	44.26
	-	-	-	13 368 744	13 368 744	
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38 126 493</b>	<b>38 126 493</b>	
<b>Net Assets</b>	<b>62 387 846</b>	<b>-</b>	<b>62 387 846</b>	<b>598 012 407</b>	<b>535 624 561</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	62 387 846	-	62 387 846	598 012 407	535 624 561	

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention.

The principal accounting policy adopted in the preparation of these annual financial statements are set out below. These accounting policies are consistent with the previous period, except for the policies relating to the new standards and interpretations under note 2.1.

#### **1.1 Presentation currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. Amounts are rounded off to the nearest Rand.

#### **1.2 Reporting entity**

Mbhashe Local Municipality ("the municipality") is a low capacity local government institution covering Dutywa, Willowvale and Elliotdale in the Eastern Cape.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.3 Judgements, assumptions and estimates

The preparation of financial statements in conformity with GRAP requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of GRAP that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year include:

- Impairment of debtors. Management is required to assess the debtors portfolio on an individual and collective basis and to determine an appropriate impairment based on the collection trends, type of consumer and the general economic environment.
- Provision for landfill sites. Management is required to base the provision for the rehabilitation of the landfill sites on appropriate supporting documentation and assumptions relating to available permitted airspace, airspace utilization factor and waste acceptance rate.
- Assessment of conditions related to unspent grants. Management must exercise judgment in assessing the extent to which the conditions pertaining to grants have been met in order to release an appropriate amount to revenue.
- Assets. Management are required to exercise judgment when assessing the fair value / deemed cost of an asset, the extent of any potential impairment, the useful lives and depreciation methods applied to assets.
- Intangible assets. Management is required to assess the useful life of intangible assets based on the period the asset is expected to generate net cash inflows or service potential.

#### Going concern assumption

These annual financial statements have been prepared on a going concern basis.

#### Comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated 36. The nature and reason for the re-classification is disclosed. Where accounting errors relating to prior years have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively in terms of the requirements of the standard, and the prior year comparatives are restated accordingly.

### 1.4 Value add tax

The municipality accounts for VAT on the payment basis. The municipality is liable to account for VAT at the standard rate (15%) in terms of section 7 (1)(a) of the VAT Act, in respect of the supply of goods or services except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or is out of scope for VAT purposes.

The vat rate changed on the 01 April 2018 from 14% to 15% as determined by National Treasury.



# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.5 Investment property**

#### **Initial recognition**

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

#### **Subsequent measurement and derecognition - cost model**

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Investment property is depreciated on the straight line basis over its expected useful life to its estimated residual value. The depreciable amount is determined after taking into account an asset's residual value. If at any point the residual value exceeds the carrying amount of an investment property, no depreciation is calculated on that investment property. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful life of investment property is estimated to be 40 years.

Investment property is derecognised on disposal when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

### **1.6 Property, plant and equipment**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.6 Property, plant and equipment (continued)

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

#### Subsequent measurement and derecognition - cost model

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite useful life
Buildings	Straight line	30 years
Other assets	Straight line	5 - 10 years
Infrastructure	Straight line	10 - 60 years
Community assets	Straight line	30 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

#### Derecognition of PPE

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.6 Property, plant and equipment (continued)

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The municipality recognises an intangible asset in its statement of financial position only when it meets the definition of an intangible asset and it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be reliably.

Intangible assets are initially recognised at cost. An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

For intangible assets with indefinite useful life amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with the Standards of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors

#### Initial recognition

The cost of an item of an asset is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality.

Where an intangible asset is acquired in exchange for non-monetary asset or monetary assets, or combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the deemed cost). If the acquired item's fair value was not determinable, it's deemed carrying amount of the assets given up.

#### Subsequent measurement - cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life.

#### Amortisation

Amortisation is charged so as to write off the cost of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated asset average lives

Item	Useful life
Computer software, other	3 to 5 years

#### Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefit or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the surplus or deficit.

### 1.8 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.8 Investments in controlled entities (continued)**

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### **1.9 Heritage assets**

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### **Recognition**

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

The fair values cannot be measured due to nature of assets. The assets are shown in the financial statements at a nominal value of R9 for record keeping.

### **1.10 Related parties**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Related parties include Councillors, key management personnel and close members of family.

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other senior managers reporting directly to the Municipal Manager and supply chain officials.

Key management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.11 Events after reporting period**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### **1.12 Financial instruments**

#### **Classification**

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial instrument at fair value
- Financial instruments at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

#### **Initial recognition**

A financial assets/ financial liability shall be recognised in the statement of financial position when, and only when the municipality becomes a party to the contractual provisions of instrument.

#### **Initial measurement financial assets and financial liabilities**

When a financial asset/liability is recognised initially, the municipality shall measure it at its fair value plus, in the case of a financial asset/liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset/liability.

#### **Subsequent measurement of financial assets and financial liabilities**

The municipality shall measure all financial assets/liabilities after initial recognition using the following categories:

- financial instruments at amortised cost
- financial instrument at fair value

All financial assets measured at amortised cost, or cost, are subject to an impairment review in terms of GRAP 104: Financial Instruments. Financial assets are recognised using trade date accounting.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost.

#### **Receivables from exchange transactions**

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments.

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.12 Financial instruments (continued)**

#### **Cash and cash equivalents**

Cash and cash equivalents are recognised at fair value and subsequently carried at amortised cost using the effective interest method. Cash includes cash on hand (including petty cash) and investments comprising cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts

#### **Bank overdraft and borrowings**

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### **Financial liabilities**

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. Trade and other payables from exchange transactions reflected on the face of the statement of financial position or in the notes thereto are classified as other financial liabilities.

Financial liabilities consist of trade payables and are initially measured at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

#### **Derecognition**

##### **Financial assets**

Financial assets are derecognised when the contractual rights to the cash flows from the asset expires, is settled or waived, or it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another party.

An entity recognises financial assets using trade date accounting.

##### **Financial liabilities**

A financial liability is derecognised when and only when the financial liability is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived).

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.12 Financial instruments (continued)**

#### **Impairment of financial assets**

A financial asset measured at amortised cost or cost, is assessed at each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the municipality on terms that the municipality would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

The municipality considers evidence of impairment at both a specific asset and collective asset level.

All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. A report on the various categories of customers is drafted to substantiate the impairment evaluation.

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment, the Municipality uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in surplus or deficit and reflected in an allowance account against receivables. If impaired financial assets are written off, the write off is made against the allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through surplus or deficit, subject to the restriction that the carrying amount of the financial instrument shall not exceed what the amortised cost would have been had the impairment not been recognised.

#### **Payables from exchange transactions**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.13 Leases**

#### **Municipality as lessee**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the assets fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and not guaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The municipality recognises the aggregate payments as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

#### **Municipality as lessor**

Operating lease payments are recognised in surplus or deficit on a straight-line basis over the term of the lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.



## **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

### **Accounting Policies**

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#### **1.13 Leases (continued)**

##### **Municipality as a lessor**

Under a finance lease, the Municipality recognised the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease installments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight lined revenue and actual payment received will give rise to an asset. The Municipality recognised the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

#### **1.14 Employee benefits**

## **Accounting Policies**

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### **1.15 Provisions, contingent assets and contingent liabilities**

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgment.

Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

#### **Contingencies**

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

### **1.16 Revenue from exchange transactions**

Revenue from exchange transactions includes revenue from service charges, rental of facilities and equipment, other income and interest received on investments.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue from the sale of goods in the ordinary course of the municipality's activities is measured at the fair value of the consideration received or receivable, net of value added tax, estimated returns, rebates and discounts. Revenue from the rendering of the services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property that has improvements and receiving service. Tariffs are determined per category of property usage, and are levied at a fixed monthly rate based on the category of the customer.

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.16 Revenue from exchange transactions (continued)**

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Interest income is recognised using the effective interest rate method.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

### **1.17 Revenue from non-exchange transactions**

Revenue from non-exchange transactions includes rates levied, licences and permits, fines and grants from other spheres of government.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, the amount of the revenue can be measured reliably and if applicable, there has been compliance with the relevant legal requirements or restrictions.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable.

Fines constitute both spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. As a result, revenue from spot fines and summonses is recognised when payment is received.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the definition and recognition criteria of an asset have been met.

#### **Unconditional grants and receipts**

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached restrictions, the grants are recognised as revenue when received by the entity.

#### **Conditional grants and receipts**

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant. If the compliance with the restrictions have not been met, the revenue is deferred and recognised as a liability

Interest earned on investments arising from grants is recognised as interest earned in surplus or deficit.

### **1.18 Borrowing costs**

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.19 Unauthorised expenditure**

Unauthorised expenditure is expenditure that has **not been budgeted**, expenditure that is not in terms of the conditions of an allocation received from another sphere of **government, municipality or organ of state** and expenditure in the form of a grant that is not permitted in terms of the **Municipal Finance Management Act (Act No.56 of 2003)**. Unauthorised expenditure is accounted for as an **expense** in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

### **1.20 Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure is expenditure that was **made in vain** and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

### **1.21 Irregular expenditure**

Irregular expenditure is expenditure that is **contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998)** or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

### **1.22 Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the municipality has a **legally enforceable right to set off the amounts** and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Revenues and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

### **1.23 Commitments**

Commitments relate to capital projects for which funds have been committed at year end. Commitments are not recognised as a liability in the statement of financial position or as expenditure in the statement of financial performance but are included in the disclosure note.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

2019 2018

### 2. Investment property

2019		2018	
Cost / Valuation	Accumulated depreciation and accumulated impairment	Cost / Valuation	Accumulated Carrying value depreciation and accumulated impairment
33 511 900	-	33 511 900	-
			33 511 900

Investment property

### Reconciliation of investment property - 2019

Opening balance	Total
33 511 900	33 511 900

Investment property

### Reconciliation of investment property - 2018

Opening balance	Other changes, movements	Total
47 080 100	(13 568 200)	33 511 900

Investment property

Rental income and operating expenditure relating to investment property was identified as not being material . As such these amounts have not been separately disclosed

Included in the properties registered under the name of the municipality are RDP houses amounting to R10 213 200 not yet transferred to the beneficiaries.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

2019

2018

### 3. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and Buildings	50 091 287	(26 748 680)	23 342 607	50 091 287	(24 959 541)	25 131 746
Other Assets	101 978 269	(57 732 744)	44 245 525	100 263 364	(46 794 978)	53 468 386
Infrastructure and community assets	837 758 913	(456 879 572)	380 879 341	807 383 830	(415 693 586)	391 690 244
Landfill site	6 336 479	(5 724 017)	612 462	6 336 479	(5 621 702)	714 777
WIP	118 805 326	-	118 805 326	82 972 469	-	82 972 469
<b>Total</b>	<b>1 114 970 274</b>	<b>(547 085 013)</b>	<b>567 885 261</b>	<b>1 047 047 429</b>	<b>(493 069 807)</b>	<b>553 977 622</b>

### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land and Buildings	25 131 746	-	-	-	(1 789 139)	23 342 607
Other Assets	53 468 386	1 751 054	(37 688)	-	(10 936 227)	44 245 525
Infrastructure and community assets	391 690 244	-	-	31 351 156	(42 162 059)	380 879 341
Landfill site	714 777	-	-	-	(102 315)	612 462
WIP	82 972 469	67 184 013	-	(31 351 156)	-	118 805 326
	<b>553 977 622</b>	<b>68 935 067</b>	<b>(37 688)</b>	<b>-</b>	<b>(54 989 740)</b>	<b>567 885 261</b>

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

## **Notes to the Annual Financial Statements**

Figures in Rand

### **3. Property, plant and equipment (continued)**

#### **Reconciliation of property, plant and equipment - 2018**

	Opening balance	Additions	Transfers	Depreciation	Total
Land and Buildings	26 162 188	736 500	-	(1 766 942)	25 131 746
Other assets	64 530 271	2 778 737	(35 845)	(13 804 777)	53 468 386
Infrastructure and community assets	373 738 177	-	59 078 554	(41 126 487)	391 690 244
Landfill site	809 492	-	-	(94 715)	714 777
WIP	93 297 294	48 753 729	(59 078 554)	-	82 972 469
	<b>558 537 422</b>	<b>52 268 966</b>	<b>(35 845)</b>	<b>(56 792 921)</b>	<b>553 977 622</b>

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 4. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 793 127	(1 479 945)	1 313 182	2 793 127	(1 062 809)	1 730 318

### Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	1 730 318	(417 136)	1 313 182

### Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	2 288 903	(538 585)	1 730 318



# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 5. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets which fair values cannot be reliably measured: (Para .94)						
Heritage Assets which fair values cannot be reliably measured.	9	-	9	9	-	9

#### Reconciliation of heritage assets 2019

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Historical monuments	9	9

#### Reconciliation of heritage assets 2018

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Historical monuments	9	9

#### Heritage assets which fair values cannot be reliably measured

##### Graves, Caves and Memorial Sites

The Municipality's heritage assets consists of graves,grave sites,traditional dwelling and caves. Their fair value cannot be reliably measured. Fair value cannot be determined reliably due to nature of the assets. The assets have been allocated a nominal value of 9 for record keeping.

Following is the list of heritage assets:

. Graves (Gcaleka's Grave,King Hintsa's Grave and King Sarhill's Grave)  
Memorial sites (Nqadu Great Place,Fort Bowker and Fort Matan Memorial) . Caves (Sinqumeni Caves,Ngqamakhwe Rock Art and Ludiza Cave) . Mhlakaza's House  
Nongqawuse's House

### 6. Operating lease liability

#### Operating leases - as lessee (expense)

Minimum lease payments due		
-Within one year	3 007 631	4 233 587
-In second to fifth year	-	3 007 631

At the Statement of Financial Position date, where the municipality is a lessee under operating leases, it will have an operating lease liability.

Operating lease payments represent rentals payable by the municipality for certain of its office equipment, and vehicles. No contingent rental is payable.

The municipality is party to three lease commitment, which is a lease of a photocopiers, and two leases of vehicles.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 7. Employee benefit obligations

#### Defined benefit plan

The municipality has an unfunded defined benefit plan that relates to long service awards. Benefits in the form of additional leave days and cash rewards accrue to employees based on the number of years of experience.

An actuarial valuation was performed using generally accepted actuarial principles

The reporting entity and those charged with the governance of the entity are responsible for determining the assumption used in valuations of this nature and should give evidence of their approval of the assumptions.

The disclosures shown below assumes that actuarial gain and losses are recognised immediately as required in terms of GRAP 25,.

#### Defined benefit obligation

Opening balance	4 325 713	3 429 845
Benefits paid	(496 797)	(239 687)
Net expense recognised in the statement of financial performance	1 090 512	1 135 555
	<b>4 919 428</b>	<b>4 325 713</b>

#### Amount recognised in surplus and deficit

Past service cost	2 014 077	1 764 730
Interest cost	363 696	286 977
Actuarial (gains) losses	(1 287 261)	(916 152)
	<b>1 090 512</b>	<b>1 135 555</b>

#### Amount recognised in statement of financial position

Current Employee Benefit obligation	631 185	496 797
Non-Current Employee Benefit Obligation	4 288 243	3 828 916
	<b>4 919 428</b>	<b>4 325 713</b>

#### Reconciliation of net statement of financial position amount

Opening balance	4 325 713	3 429 845
Expected return	1 090 512	1 135 555
Actuarial gains (losses)	(496 797)	(239 687)
	<b>4 919 428</b>	<b>4 325 713</b>

#### Key assumptions

Discount rates used	8.10 %	8.92 %
Expected rate of return on assets	4.38 %	5.44 %

The above discount rates have been based on market indicators at each year end. For 2019 the rate is based on market yields on government bonds as at the end of June 2019 as published by the Bond Exchange of South Africa. The salary escalation rate is based on underlying market inflation plus an allowance for the fact that on average salary increases generally exceed inflation.

For the purposes of the valuation the difference between the discount rate and the salary inflation rate is more significant than the individual items. The salary inflation gap of 1. % applied in 2019 [2018: 1.0%] is consistent with rates generally used in the market for the valuation of benefits of this nature.

The results of the valuation are sensitive to the assumptions chosen.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 7. Employee benefit obligations (continued)

#### Sensitivities

1% increase in discount rate	4 639 011	4 072 979
Decreases in defined benefit obligation Percentage	5.7 %	5.8 %
	-	-
1% decrease in discount rate	5 235 430	4 610 522
Increases in defined benefit obligation Percentage	6.4 %	6.6 %
	-	-
1% increase in salary inflation	5 240 865	4 614 695
Increases in defined benefit obligation Percentage	6.5 %	6.7 %

#### Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

The municipality makes contributions to the following plans:

- South African Municipal Workers Union National Provident Fund
- Eastern Cape Municipal Pension Fund
- Eastern Cape Municipal Gratuity Fund

The municipality makes contributions to the following medical aid schemes:

- HOSMED
- Key health
- South African Municipal Workers Union Medical Aid
- Bonitas
- LA Health

These contributions have been expensed.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>8. Receivables from exchange transactions</b>		
Prepayments	210 759	210 759
Staff Debtors	181 775	151 423
	<b>392 534</b>	<b>362 182</b>

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 9. Receivables from non-exchange transactions

Other receivables from non-exchange revenue	978	52 496
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### Receivables from non-exchange transactions

Balance as at 30 June 2019	Opening balance	Movement	Amount written off	Closing balance
SARS debtor	52 496	(51 518)	-	978

This amount relates to unallocated payments due to the municipality as reflected in the SARS Statement of Account.

**MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

**Notes to the Annual Financial Statements**

Figures in Rand	2019	2018
<b>10. VAT receivable</b>		
VAT refund due from SARS	6 535 673	3 818 791
<b>11. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	27 224 030	23 759 467
Refuse	1 830 255	1 691 386
Housing rental	117 352	133 564
	<b>29 171 637</b>	<b>25 584 417</b>
<b>Less: Allowance for impairment</b>		
Consumer debtors impairment	(19 953 847)	(21 286 548)
<b>Net balance</b>		
Rates	27 224 030	23 759 467
Refuse	1 830 255	1 691 386
Housing rental	117 352	133 564
Provision for debt impairment	(19 953 847)	(21 286 548)
	<b>9 217 790</b>	<b>4 297 869</b>
<b>Included in above is receivables from exchange transactions</b>		
Refuse	1 830 255	1 691 386
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	27 224 030	23 759 467
<b>Gross balance</b>	<b>29 054 285</b>	<b>25 450 853</b>
<b>Rates</b>		
Current (0 -30 days)	1 805 319	1 266 700
31 - 60 days	273 121	616 913
61 - 90 days	179 133	630 103
91 - 120 days	24 966 457	21 245 751
	<b>27 224 030</b>	<b>23 759 467</b>
<b>Refuse</b>		
Current (0 -30 days)	154 535	32 263
31 - 60 days	53 222	29 938
61 - 90 days	51 413	31 721
91 - 120 days	1 571 085	1 597 464
	<b>1 830 255</b>	<b>1 691 386</b>
<b>Housing rental</b>		
Current (0 -30 days)	117 352	133 564
<b>Other (specify)</b>		
General and specific impairment	(19 953 847)	(21 286 548)

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>11. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	488 573	1 029 413
31 - 60 days	235 307	493 989
61 - 90 days	244 473	290 736
91 - 120 days	15 569 986	14 839 187
	16 538 339	16 653 325
	(15 127 440)	(15 685 280)
<b>Less: Allowance for impairment</b>	<b>1 410 899</b>	<b>968 045</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	242 857	121 668
31 - 60 days	101 209	60 318
61 - 90 days	93 952	2 183
91 - 120 days	4 838 538	3 697 981
	5 276 556	3 882 150
	(4 826 408)	(3 687 048)
<b>Less: Allowance for impairment</b>	<b>450 148</b>	<b>195 102</b>
<b>National and provincial government</b>		
Current (0 -30 days)	373 234	99 045
31 - 60 days	243 984	47 865
61 - 90 days	243 538	289 517
91 - 120 days	3 835 761	1 652 565
	4 696 517	2 088 992
<b>Total</b>		
Current (0 -30 days)	1 044 678	1 298 963
31 - 60 days	571 469	646 851
61 - 90 days	562 445	661 824
91 - 120 days	26 993 045	22 843 215
	29 171 637	25 450 853
	(19 953 847)	(21 152 984)
<b>Less: Allowance for impairment</b>	<b>9 217 790</b>	<b>4 297 869</b>
<b>Less: Provision for debt impairment</b>		
General and specific impairment	(19 953 847)	(21 286 548)
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(21 286 548)	(17 899 151)
Contributions to allowance	1 332 701	(3 387 397)
	(19 953 847)	(21 286 548)
<b>12. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	1 949	1 500
Cash at bank	3 499 996	692 751
Short-term deposits	13 779 628	5 529 242
	17 281 573	6 223 493

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 12. Cash and cash equivalents (continued)

The municipality had the following bank and investment accounts:

Account number / description (Continued)	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
First National Bank Limited- Call Account - Account number 62562355373	100 281	36 158	60 624	100 281	36 158	60 624
First National Bank Limited - Call Account - Account number 62562352410	6 790	6 580	376 913	6 790	6 580	376 913
First National Bank Limited - Call Account - Account number 62562829188	36 221	25 935	24 685	36 220	25 935	24 685
First National Bank Limited - Call Account - Account number 62562827364	989 890	15 137	62 034	989 890	15 137	62 033
First National Bank Limited - Call Account - Account number 62562354002	879 639	73 639	70 020	879 640	73 640	70 021
First National Bank Limited - Cheque account - Account number 62231175953	3 415 961	540 440	1 595 054	3 478 697	692 751	1 299 065
ABSA Bank Limited - 32 Day Notice Deposit - Account number 9057233364	-	-	715 653	-	-	718 359
ABSA Bank Limited - 32 Day Notice Deposit - Account Number 9056533115	-	-	45 792	-	-	45 949
First National Bank Limited - Call Account - Account Number 62015966099	4 791	4 760	5 356	4 791	4 760	5 356
ABSA Bank Limited - Call Account - Account Number 9205591041	-	-	1 812 359	-	-	1 818 988
First National Bank Limited - Call Account - Account Number 62231177769	26 090	61 248	3 177 614	26 090	61 249	3 177 614
First National Bank Limited - Money Market Account - Account Number 62231195323	89 923	653	96 707	764	654	96 708
ABSA Bank Limited - 32 Day Notice Deposit - Account number 9100317908	-	-	188 855	-	-	189 546
First National Bank - Call Account - Account Number 62232870487	123 520	100 012	778 151	123 520	99 455	777 594
ABSA Bank Limited - 32 Day Notice Deposit - Account number 9110889747	-	-	288 520	-	-	288 887
First National Bank - 7 Day Interest Plus - Account Number 74321424942	11 632 941	5 205 120	4 525 598	11 632 941	5 205 120	4 604 196
Cash on hand	-	-	-	1 949	1 500	18 941
<b>Total</b>	<b>17 306 047</b>	<b>6 069 682</b>	<b>13 823 935</b>	<b>17 281 573</b>	<b>6 222 939</b>	<b>13 635 479</b>



# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	5 284 162	-
Disaster emergency housing grant	340 112	-
Library Grant	5 624 274	-

### Movement during the year

Additions during the year	5 624 274	-
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The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 14. Provisions

#### Reconciliation of provisions - 2019

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	8 415 116	665 384	9 080 500

#### Reconciliation of provisions - 2018

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	7 907 851	507 265	8 415 116

#### Environmental rehabilitation provision

##### Willowvale site

The License for the closure of the Willowvale site was extended in October 2015 for a period of 2 years.

An environmental specialist has been appointed to assist the Municipality with the management and closure of this site. The environmental specialist has undertaken a site visit and prepared preliminary designs and costing of works to be completed. Interactions with the Licensing authority are currently in progress.

Given that the site is expected to be closed within the next 12 months the costing prepared by the environmental specialist have been used as the basis for the rehabilitation provision. Where appropriate a discount rate of 4.5% was used.

The landfill site's lifespan expectancy from the end of the financial year is zero.

##### Dutywa site

The License for the closure of Dutywa site was extended on the October 2015 for a period of 2 years.

An environmental specialist has been appointed to assist the Municipality with the management and closure of this site. The environmental specialist has undertaken a site visit and prepared preliminary designs and costing of works to be completed. Interactions with the Licensing authority are currently in progress.

Given that the sites are expected to be closed within the next 12 months the costing prepared by the environmental specialist have been used as the basis for the rehabilitation provision. Where appropriate a discount rate of 4.5% was used.

The landfill site is lifespan expectancy from the end of the financial year is expected to be 5 months.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 14. Provisions (continued)

#### Elliotdale site

The Elliotdale site's license is valid until 17 December 2020, but is reviewed every 5 years.

An environmental specialist has been appointed to assist the Municipality with the management of this site. A recent review of the facilities indicated that the site needs to be upgraded to meet current environmental and legislative requirements. The environmental specialist has undertaken a site visit and prepared preliminary designs and costing of works to be completed to enable the landfill site to continue operating as envisaged. Interactions with the Licensing Authority are currently in progress.

Based on the past usage the environmental specialist estimates that the landfill capacity is adequate up to 2037 provided:

- regular site upgrades are effected,
- the operations are properly managed and
- the license is renewed every 5 years

The provision for land rehabilitation is based on the current cost of the following activities being undertaken to close the site in 2037:

- Closing 1 cell, including capping
- Rehabilitation of the Leachate Pond
- Removal of any structures
- Storm water control
- Greening of site
- Ground water monitoring

The landfill site's lifespan expectancy from the end of the financial year is expected to be 20 years. Where appropriate a discount rate of 4.5% was used.

#### Other Provisions

This amount comprises a provision in favour of SARS for PAYE and resultant penalties and interest relating to a lumpsum payment made to a former Municipal Manager for which no PAYE was withheld. The Municipality has requested a tax directive from SARS. The likelihood and timing of the settlement is not as yet certain.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>15. Payables from exchange transactions</b>		
Trade payables	7 708 396	13 413 124
Debtors with credit balances	-	3 358 280
Accrued leave pay	8 359 348	7 355 588
Accrued bonus (13th Cheque)	2 184 497	1 900 510
Contract retentions	250 049	-
Payroll Control Accounts	-	3 859 156
	<b>18 502 290</b>	<b>29 886 658</b>
<b>16. Revenue</b>		
Service charges	912 221	673 224
Rental of facilities and equipment	3 290 203	3 312 764
Interest received (trading)	1 923 504	2 621 875
Other income	3 246 536	2 473 876
Interest received - investment	3 252 067	2 486 447
Property rates	11 396 251	9 693 917
Licences and permits	2 355 651	1 293 360
Government grants & subsidies	311 575 340	299 118 709
Fines and Penalties	1 084 446	2 497 708
	<b>339 036 219</b>	<b>324 171 880</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	912 221	673 224
Rental of facilities and equipment	3 290 203	3 312 764
Interest received (trading)	1 923 504	2 621 875
Other income (Refer to note 18)	3 246 536	2 473 876
Interest earned - investments	3 252 067	2 486 447
	<b>12 624 531</b>	<b>11 568 186</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	11 396 251	9 693 917
Licence and permits	2 355 651	1 293 360
<b>Transfer revenue</b>		
Government grants & subsidies	311 575 340	299 118 709
Fines and penalties	1 084 446	2 497 708
	<b>326 411 688</b>	<b>312 603 694</b>
<b>17. Service charges</b>		
Refuse removal	912 221	673 224
<b>18. Rental of facilities and equipment</b>		
<b>Premises</b>		
Premises	2 890 985	2 909 784
Rental of Halls	169 169	129 066
Rentals of Billboards	230 049	273 914
	<b>3 290 203</b>	<b>3 312 764</b>

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>19. Recoveries</b>		
<b>20. Other income</b>		
Administrative Fees	1 309 932	1 989 145
Building Plans	255 655	145 431
Burial and cemetery	3 568	3 975
Sundry income	1 677 381	335 325
	<b>3 246 536</b>	<b>2 473 876</b>
<b>21. Interest received - external investments</b>		
Interest revenue		
Interest on bank accounts and investment balances	3 252 067	2 486 447
<b>22. Property rates</b>		
<b>Rates charged</b>		
Assessment rates	11 396 251	9 693 917
<b>Valuations</b>		
Residential	19 140 130 300	19 140 130 300
Commercial	16 068 465 800	16 068 465 800
State	15 924 730 000	15 924 730 000
Municipal	26 433 124 500	26 433 124 500
	<b>'7 566 450 600</b>	<b>'7 566 450 600</b>

The Applicable general rates for current financial period and its comparative year is as follows:

A general rate of 0.0067 (2018: 0.0036) is applied to residential property valuations to determine assessment rates.  
A general rate of R 0.0089 (2018: R 0.00848) is applied to business property valuations to determine assessment rates.  
A general rate of R 0.010036 (2018: R 0.00954) is applied to government property valuations to determine assessment rate  
A general rate of R 0.0078 (2018: R 0.00742) is applied to Vacant Sites valuations to determine assessment rates

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>23. Government grants and subsidies</b>		
<b>Operating and capital grants</b>		
Equitable share	225 391 000	218 025 000
Integrated Electrification Programme	8 946 000	14 000 000
Finance Management Grant	1 770 000	1 700 000
Other government grants	-	1 380 779
Municipal Infrastructure Grant	70 192 000	58 027 000
Service SETA Grant	101 452	1 399 930
Library subsidies	159 888	350 000
Extended Public Works Programme	5 015 000	4 236 000
	<b>311 575 340</b>	<b>299 118 709</b>

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	86 184 340	79 362 930
Unconditional grants received	225 391 000	219 755 779
	<b>311 575 340</b>	<b>299 118 709</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

### Finance Management Grant

Current-year receipts	1 770 000	1 700 000
Conditions met - transferred to revenue	(1 770 000)	(1 700 000)
	-	-

The Financial Management Grant is a conditional grant. The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA. The focus of the FMG Grant is to build awareness and undertake training on MFMA reforms including budgeting, reporting and financial processes.

### Municipal Infrastructure Grant

Current-year receipts	70 192 000	58 027 000
Conditions met - transferred to revenue	(70 192 000)	(58 027 000)
	-	-

The Municipal Infrastructure Grant is a conditional grant, the purpose of which is to provide all South Africans with at least a basic level of service through the provision of grant finance to cover the capital cost of basic infrastructure for the poor. It is part of government's overall strategy to eradicate poverty and to create conditions for local economic development. The Municipality utilises these funds to primarily fund access roads and related infrastructure.

### EPWP

Current-year receipts	5 015 000	4 236 000
Conditions met - transferred to revenue	(5 015 000)	(4 236 000)
	-	-

The Expanded Public Works Programme (EPWP) is a conditional grant and is one of government's short-to-medium term programs aimed at alleviating and reducing unemployment. The EPWP will achieve this aim through the provision of work opportunities coupled with training.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 23. Government grants and subsidies (continued)

#### Integrated Electrification Programme

Current-year receipts	8 946 000	14 000 000
Conditions met - transferred to revenue	(8 946 000)	(14 000 000)
	-	-

The Integrated Electrification Programme is a conditional grant. The purpose of the Integrated Electrification Programme Grant is to facilitate the development of the electrical infrastructure grid as part of the Integrated National Electrification Programme.

### 24. Employee related costs

Bargaining council contributions	29 316	30 703
Basic	66 586 585	61 090 780
Bonus (13th cheque)	5 816 403	5 422 940
Casual wage employment	14 027 401	20 260 103
Cellphone Allowance	6 602 808	5 294 404
Housing benefits and allowances	2 606 158	2 896 194
Leave related costs	1 555 028	1 092 628
Long-service awards	238 232	99 738
Medical aid - company contributions	5 509 282	4 842 082
Overtime payments	616 385	2 479 839
Post-employment benefits	14 176 553	14 703 624
Skills Development Levy	1 047 198	1 058 472
Stand by Allowances	68 508	101 336
Travel, motor car, accommodation, subsistence and other allowances	2 099 209	1 769 812
Unemployment Insurance Fund	565 431	741 701
	<b>121 544 497</b>	<b>121 884 356</b>

#### Remuneration of Municipal Manager

Annual remuneration	1 131 506	927 151
Backpay	60 327	37 974
Bonus	24 000	24 000
Contributions to UIF, medical and pension funds	65 761	108 611
Travel, motor car, accommodation, subsistence and other allowance	241 554	71 330
Cellphone allowance	17 948	15 705
Acting allowance	-	43 338
Leave payout	-	251 940
	<b>1 541 096</b>	<b>1 480 049</b>

Mr SV Poswa was appointed as Municipal Manager from March 2015 till August 2017. Mr M. Nako was appointed as Municipal Manager from December 2017 after he has acted up from August 2017 to December 2017.

#### Remuneration of Chief Finance Officer

Annual remuneration	857 745	823 203
Backpay	50 017	30 621
Bonus	56 000	56 000
Travel, motor car, accommodation, subsistence and other allowance	263 511	241 607
Contributions to UIF, medical and pension funds	54 526	80 445
	<b>1 281 799</b>	<b>1 231 876</b>

Mr X Sikobi was appointed as Chief Financial Officer from 01 July 2015

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 24. Employee related costs (continued)

#### Remuneration of Senior Manager - Community Services

Annual remuneration	862 752	605 207
Backpay	38 946	30 399
Bonus	-	24 000
Travel, motor car, accommodation, subsistence and other allowance	213 169	77 837
Contributions to UIF, medical and pension funds	51 666	57 054
Leave pay	-	186 892
Cellphone allowance	-	34 167
Acting allowance	-	77 573
	<b>1 166 533</b>	<b>1 093 129</b>

The Community Services Manager, Mr M Mtongana, was appointed as the Community Services Manager on 01 March 2013 till February 2018, Mr Bongo assumed the position of Acting Director from 01 March 2018 till 30 June 2018. Mr NP Mlungu was appointed as director from July 2018.

#### Remuneration of Senior Manager Corporate Services

Annual remuneration	899 960	858 044
Backpay	50 017	30 621
Bonus	12 000	108 000
Travel, motor car, accommodation, subsistence and other allowances	243 295	208 257
Contributions to UIF, medical and pension funds	62 504	76 554
	<b>1 267 776</b>	<b>1 281 476</b>

Mr M P Nini was appointed as a Senior Manager from June 2015.

#### Remuneration of Senior Manager Infrastructure Services

Annual remuneration	876 547	913 662
Backpay	49 556	30 339
Bonus	-	80 000
Leave pay	31 740	-
Travel, motor car, accommodation, subsistence and other allowance	120 267	116 755
Contributions to UIF, medical and pension funds	54 516	78 322
	<b>1 132 626</b>	<b>1 219 078</b>

Miss N Y Mqoqi was appointed as a Senior Manager from 1 April 2014 up to March 2019, Mr SZI Msipha was appointed as Senior Manager from May 2019.

#### Remuneration of Senior Manager Operations

Annual remuneration	765 983	398 800
Backpay	38 946	30 621
Bonus	55 000	24 000
Acting allowance	-	175 972
Travel, motor car, accommodation, subsistence and other allowances	248 689	31 407
Contributions to UIF, Medical and Pension Funds	49 684	34 368
Cellphone allowance	-	8 974
Leave pay	-	87 443
	<b>1 158 302</b>	<b>791 585</b>

Mr M Nako was appointed as Senior Manager from 15 December 2015 till November 2017. Mr S Baliso assumed the position of Acting Senior Operations Manager from 17 November 2017 till 30 June 2018. Mrs T Bacela was appointed as Senior Manager Operations from July 2018



# MBHASHE LOCAL MUNICIPALITY (EC 121)

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## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 24. Employee related costs (continued)

#### Remuneration of Senior Manager Planning and Development

Annual remuneration	818 110	947 159
Backpay	110 537	30 399
Leave pay	154 865	-
Travel, motor car, accommodation, subsistence and other allowance	110 537	116 755
Contributions to UIF, medical and pension funds	52 019	84 003
Cellphone allowance	-	17 084
	<b>1 246 068</b>	<b>1 195 400</b>

Mr C B Mqingwana was appointed as a Senior Manager of Planning and Development from 04 March 2014 for a period of five years and his contract has ended. Mr A Mashaba was appointed as Senior Manager in May 2019.

### 25. Remuneration of Councillors

Council remuneration and allowances	25 618 098	25 088 557
Analysis of council remuneration		
Mayor	878 120	864 640
Speaker	702 750	708 249
Traditional leaders	611 666	886 895
Executive committee members	3 297 465	3 237 613
Councillors remuneration	14 051 674	12 716 650
Councillors allowances	2 215 723	2 852 283
Ward committee remuneration	3 860 700	3 822 227
	<b>25 618 098</b>	<b>25 088 557</b>

### 26. Depreciation and amortisation

Property, plant and equipment	55 509 499	57 441 881
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### 27. Finance costs

Interest paid on trade and other payables	184 028	159 340
Finance cost on lease liability	665 384	1 253 402
Rehabilitation of landfill sites	-	507 265
	<b>849 412</b>	<b>1 920 007</b>

### 28. Debt impairment

Bad debts written off	557 855	3 387 397
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# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>29. Administrative and other expenditure</b>		
Advertising	2 371 699	1 227 692
Audit committee fees	204 263	184 812
Auditors remuneration	4 352 217	3 798 907
Bank charges	401 837	331 072
Catering	2 658 480	2 581 243
Cleaning	310 945	607 620
Community development and training	-	268 919
Conferences and seminars	264 602	26 794
Consumables	105	438 465
Electricity	489 585	-
Equipment and plant hire	347 667	1 332 662
Fuel and oil	6 900 366	5 442 758
IT Expenses	1 796 083	1 704 322
Indigent subsidies	1 106 928	2 815 437
Insurance	-	1 018 709
Lease rentals on operating lease	4 733 285	5 772 023
Consulting and professional fees	13 615 612	1 584 356
Motor vehicle expenses	362 262	116 902
Other expenses	1 180 533	922 161
Postage and courier	2 768	19 500
Printing and stationery	584 680	1 013 313
Professional fees	8 619 045	8 213 825
Project maintenance costs	6 697 142	7 703 766
Promotions and Branding	453 860	514 200
Protective clothing	527 402	2 856 562
Refuse	6 081 855	5 278 896
Repairs and maintenance	15 985 807	35 311 381
Safety Plan	199 000	385 406
Security (Guarding of municipal property)	9 066 222	8 442 962
Special programme	902 123	641 240
Subscriptions and membership fees	2 764 973	476 303
Telephone and fax	1 773 512	475 385
Tourism development	-	1 364 815
Training	104 400	4 017 400
Travel - local	4 055 705	4 963 274
Water	2 333 179	1 970 228
	<b>101 248 142</b>	<b>113 823 310</b>

## 30. Auditors' remuneration

Fees	4 352 217	3 798 907
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# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>31. Cash generated from operations</b>		
Surplus	33 659 324	626 373
<b>Adjustments for:</b>		
Depreciation and amortisation	55 509 499	57 441 881
Gain on sale of assets and liabilities	49 392	-
Debt impairment	557 855	3 387 397
Movements in retirement benefit assets and liabilities	593 715	895 869
Movements in provisions	665 384	507 265
<b>Changes in working capital:</b>		
Receivables from exchange transactions	(30 352)	221 384
Consumer debtors	(2 574 506)	(10 111 062)
Other receivables from non-exchange transactions	51 518	(36 242)
Payables from exchange transactions	(11 384 370)	(1 675 062)
VAT	(2 716 882)	5 507 495
Unspent conditional grants and receipts	5 624 274	-
	<b>80 004 851</b>	<b>56 765 298</b>

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 32. Financial instruments disclosure

#### Categories of financial instruments

2019

#### Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	392 534	392 534
Receivables from non-exchange transactions	978	978
Consumer debtors	9 217 790	9 217 790
Cash and cash equivalents	17 281 573	17 281 573
Vat receivable	6 535 673	6 535 673
	<b>33 428 548</b>	<b>33 428 548</b>

#### Financial liabilities

	At amortised cost	Total
Accrued bonus	2 184 497	2 184 497
Staff leave accrual	8 359 348	8 359 348
Trade payables	7 708 396	7 708 396
Provisions	9 080 500	9 080 500
Employee benefits obligations	4 919 429	4 919 429
Contract retentions	250 049	250 049
Unspent conditional grants	5 624 274	5 624 274
	<b>38 126 493</b>	<b>38 126 493</b>

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 32. Financial instruments disclosure (continued)

2018

#### Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	362 182	362 182
Receivables from non-exchange transactions	52 496	52 496
Consumer debtors	4 297 869	4 297 869
Cash and cash equivalents	6 223 493	6 223 493
VAT Receivable	3 818 791	3 818 791
	<b>14 754 831</b>	<b>14 754 831</b>

#### Financial liabilities

	At amortised cost	Total
Accrued bonus	1 900 510	1 900 510
Staff leave accrual	7 355 588	7 355 588
Trade payables	13 413 124	13 413 124
Provisions	8 415 116	8 415 116
Employee benefits obligations	4 325 714	4 325 714
Payroll control accounts	3 859 156	3 859 156
Debtors with credit balances	3 358 280	3 358 280
	<b>42 627 488</b>	<b>42 627 488</b>

### 33. Commitments

#### Authorised capital expenditure

Already contracted for but not provided for		
• Land and buildings	32 906 191	37 007 003
• Infrastructure	23 870 024	18 163 364
• Community Halls	37 867 632	48 909 632
	<b>94 643 847</b>	<b>104 079 999</b>

# MBHASHE LOCAL MUNICIPALITY (EC 121)

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## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>34. Contingencies</b>		
<b>Contingent liabilities</b>		
The municipality is currently party to the following contingent liabilities:		
N. Rulashe vs Mbhashe LM	Nature fo Contingent Liability Damages from fire	2019 - 50 000
Changing tides 1153 vs Mbhashe LM	Breach of contract	1 300 000 1 300 000
Incremate vs Mbhashe LM	Breach of contract	- 11 500 000
L. Mrasi vs Mbhashe LM	Damages claim arising from alleged unlawful detention.	1 500 000 1 200 000
Zebros vs Mbhashe LM	Damages from fire	81 464 81 464
B. Mphikwa vs Mbhashe LM	Damages	50 000 000 50 000 000
KFC Dutywa vs MLM	Renovations	684 000 684 000
Celina Siwundla vs Mbhashe Local Municipality	Damages claim arising from alleged unlawful demolition of a house.	284 750 350 000
Mziwonke Manxiwa vs Mbhashe Local Municipality	Damages claim arising from alleged unlawful demolition of a house.	762 525 762 525
V.Madotyeni vs Mbhashe LM	Assault	988 000 988 000
M. Magalela vs Mbhashe LM	Unlawful arrest	500 000 500 000
Moses Mbambo vs Mbhashe LM and others	Damages claim arising from alleged assault.	500 000 500 000
N. Qudalele vs Mbhashe LM	Assault & Unlawful arrest	700 000 700 000
N. Ngxelo vs Mbhashe LM	Injury on Duty	550 000 550 000
S.Sondli vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	488 488 488 488
V.Nosilela vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	905 492 905 492
S.Manxiwa vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	1 659 043 1 659 043
Z.Majebe vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	864 861 864 861
S.Mlakuhiwa vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	114 524 114 524

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>34. Contingencies (continued)</b>		
S.Gobeni vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house	- 762 525
Itu Facility Trading vs Mbhashe LM	Breach of contract	- 200 000
L.Mbete vs Mbhashe Local Municipality	Unlawful arrest	800 000 800 000
L.Mkhondweni vs Mbhashe LM	Motor vehicle accident	150 000 150 000
M.M Mkweni vs Mbhashe LM	Impounded vehicle	189 920 300 000
T. Square Eng. vs Mbhashe LM	Breach of contract	- 123 819
Centre Point Developers vs Mbhashe LM	Breach of contract	18 000 000 18 000 000
Shack demolition Dutywa CBD	Shack demolition	150 000 150 000
B. Njoza vs Mbhashe Local Municipality	Reversal of traffic fine	2 100 -
M. Mlonyeni vs Mbhashe LM	Unlawful arrest & prosecution	3 900 000 -
L.Singqumba vs Mbhashe Local Municipality	Unlawful arrest	500 000 500 000
Tyeks Security Services vs Mbhashe LM	Breach of contract - arrear payment	2 401 622 -
B. Mbem vs Mbhashe LM	Assault & Unlawful arrest	800 000 -
M. Silekwa vs Mbhashe LM	Assault & Unlawful arrest	800 000 -
T. Zimela vs Mbhashe LM	Assault & unlawful arrest	1 500 000 -
A. Mqikela vs Mbhashe LM	Assault & unlawful arrest	1 200 000 -
G. Sondlo vs Mbhashe LM	Assault & Unlawful arrest	800 000 -
Embo Media vs Mbhashe LM	Breach of contract	500 000 -
S. Dinca vs Mbhashe LM	Assault	200 000 -
M. Mlonyeni vs Mbhashe LM	Unlawful assets & prosecution	3 900 000 -
N.E Rulashe vs Mbhashe LM	Damages, loss of profit	296 000 -
Mlakuhiwa vs Mbhashe LM	Illegal demolition	350 000 -
M.Saki Vs Chief Sigcau & Mbhashe LM	Interdict development	200 000 -
Balintulo vs Mbhashe Local Municipality		3 112 651 3 000 000
	<b>101 635 440</b>	<b>97 184 741</b>

The following are litigations against the Municipality for which no estimate is available:

Mawethu Sakwe vs Mbhashe Local Municipality

Mangathi Community vs Mbhashe Local Municipality

Mputhi Community vs Mbhashe Local Municipality

B.S. Matshabane vs Mbhashe Local Municipality

State vs L. Mbelani

Mbhashe Local Municipality vs Nokhanyo Magatya & 3 others

Nkosinathi Ndodaka vs Mbhashe Local Municipality

N.S. Nombambela vs Mbhashe Local Municipality

# MBHASHE LOCAL MUNICIPALITY (EC 121)

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### 34. Contingencies (continued)

B. Mathandabuzo vs Mbashe Local Municipality

SAMWU obo Qunta, Baliso vs Mbashe Local Municipality  
MLM// MMM Mbuli

State vs Ntlokwinendaba & Mbambo

A detailed register of litigation matters is maintained and available for inspection at the Municipality's registered office.

### Contingent assets

The following are cases where the Municipality is a claimant:

The municipality is currently party to the following litigations:	Nature of the Contingent Asset	2019	2018
Fraudulent payment (Telkom) reported to SAPS	Fraudulent payment	18 484	18 484
Land Invaders - Elliotdale	Claim for land invasion	150 000	150 000
Mbashe LM vs Juspo		60 000	60 000
Mbashe LM vs Maqhula	Eviction	8 000	-
Mbashe LM vs B.S Titus Holdings & BP Garage	Interdict	90 000	90 000
Mbashe Local Municipality vs Medichex	Fraudulent deductions	1 207 469	-
Mbashe LM vs Various Ratepayers	Contravention of by-laws	1 650 000	-
Mbashe LM vs Various Tenants	Forensic investigation into land ownership	1 100 000	-
Mbashe LM vs Kwane Capital (Pty) Ltd & Kwane BLC	Unlawful removal of Plant & Machinery	100 000	-
Mbashe LM vs Itu-Facilities Trading	Breach of contract	200 000	-
Mbashe LM vs S. Gobeni	Illegal demolition	85 000	-
		<b>4 668 953</b>	<b>318 484</b>

The following are Litigations the Municipality is the claimant, for which no estimate is available:

Mbashe Local Municipality vs Zizi Agricultural Co-op and another

Mbashe Local Municipality vs Phakama Gatyana

Mbashe Local Municipality vs Nkosinathi Ndlovu

Mbashe Local Municipality vs P. Gatyana

The comprehensive Litigation register is kept in the municipal offices.



# MBHASHE LOCAL MUNICIPALITY (EC 121)

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### 35. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include Councillors, key management personnel and close members of family.

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager and supply chain officials.

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public.

### Related party balances

<b>Assessment Rates - Owing by related parties</b>	<b>3</b>	<b>47</b>
C. Genyane	-	671
M Sibingibingi	739	42 427
L Matiti		

<b>Amounts received from related parties for sale of land</b>	<b>58 800</b>	<b>58 800</b>
M Peter	62 100	62 100
C Mqingwana	15 000	15 000
M Mbornvu	20 000	20 000
M Mcotsho	69 000	69 000
N N Ndlodaka	15 000	15 000
M Noyila	28 530	-
T Tshika	48 800	48 800
M Nako		

In the prior years the municipality sold land to the community. Included in deposit received are the above amounts from councillors and employees of the municipality.

The land has not been transferred to the buyers, the municipality is still busy with the conclusion of transferring the properties to the relevant buyers.

### Related party transactions

During the year the Municipality rendered services to various Councillors residing within its jurisdiction. These services include rates and refuse charges.

Please refer to Note 28 for a detail of remuneration of Councillors.

During the year the Municipality actively monitored the amounts outstanding by Councillors and sent communications to remind all Councillors to ensure that all accounts are paid to date.

### Key management information

Position	Name	Description
Municipal Manager	Mr M Nako	Employed in terms of Section 56 of MSA
Chief Financial Officer	Mr CX Sikobi	Employed in terms of Section 57 of MSA
Senior Manager Infrastructure Services	Mr SZI Msipha	Employed in terms of Section 57 of MSA
Senior Manager Corporate Services	Mr MP Nini	Employed in terms of Section 57 of MSA
Senior Manager Community Services	Mrs NP Mlungu	Employed in terms of Section 57 of MSA
Senior Manager Operations	Mrs T Bacela	Employed in terms of Section 57 of MSA
Senior Manager Planning and Development	Mr A Mashaba	Employed in terms of Section 57 of MSA

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2019

## **Notes to the Annual Financial Statements**

Figures in Rand

### **35. Related parties (continued)**

#### **Remuneration of key management**

2019

Position	Basic salary	Backpay	Contributions to UIF, Medical and Pension Fund	Travel, motor car, accommodation, subsistence and other allowance	Bonus	Cellphone allowance	Leave payout	Total
Municipal Manager	1 131 506	60 327	65 761	241 554	24 000	17 948	-	1 541 096
Chief Financial Officer	857 745	50 017	54 526	263 511	56 000	-	-	1 281 799
Senior Manager Community Services	862 752	38 946	51 666	213 169	-	-	-	1 166 533
Senior Manager Corporate Services	899 960	50 017	62 504	243 295	12 000	-	-	1 267 776
Senior Manager Infrastructure Services	876 547	49 556	54 516	120 267	-	-	31 740	1 132 626
Senior Manager Operations	765 983	38 946	49 684	248 689	55 000	-	-	1 158 302
Senior Manager Planning and Development	818 110	110 537	52 019	110 537	-	-	154 865	1 246 068
	<b>6 212 603</b>	<b>398 346</b>	<b>390 676</b>	<b>1 441 022</b>	<b>147 000</b>	<b>17 948</b>	<b>186 605</b>	<b>8 794 200</b>

# MBHASHE LOCAL MUNICIPALITY (EC 121)

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### 36. Prior period errors

1. During the audit of 2018/19 during the reconciling of the Valuation roll and the customer data that is in the system, it was noted that some debtors were not billed due to those debtors details not being correct in the system. Some debtors categories were incorrect and therefore billed at incorrect rates, then the municipality undertook an exercise of correcting the errors.

2. In addition to the above stated matter, during the preparation of the year the municipality identified that some projects that were sitting in Work in progress were already completed in the prior years and therefore they had to be capitalised into Infrastructure and community assets.

3. During the year the municipality has noticed that some of the projects that were flagged as incomplete in the Commitment register were actually completed in the prior years as a result those prior year commitments relating to these projects had to be removed from the register. The financial impact was the decrease of the previously disclosed figure as follows, (1) Building Commitments have decreased by R1 054 933.02, (2) Infrastructure commitments have decreased by R17 169 076.00.

The correction of the error(s) and adjustments resulted in the following impact in the relevant annual financial statements components

#### Statement of financial position

Consumer debtors	-	1 020 253
Infrastructure and community assets	-	2 790 549
Other Assets	-	(608 959)
Work in progress	-	(1 736 103)
Opening Accumulated Surplus or Deficit	-	3 463 116

### 37. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

#### Statement of financial position

2019

	Note	As previously reported	Correction of error	Restated
Accumulated surplus (opening balance)		560 889 967	3 463 116	564 353 083
Infrastructure and community assets		388 899 695	2 790 549	391 690 244
Consumer debtors		4 297 868	1 020 253	5 318 122
Other Assets		54 065 606	(608 959)	53 456 647
Work in Progress		84 708 573	(1 736 103)	82 972 470
		<b>1 092 861 709</b>	<b>4 928 856</b>	<b>1 097 790 566</b>

### 38. Risk management

#### Financial risk management

The Municipality is exposed to the following risks:

- market risk (including interest rate risk);
- credit risk; and
- liquidity risk

The municipality seeks to minimise the effects of these risks in accordance with the municipality's policies approved by the Council. The municipality does not enter into or trade in financial instruments for speculative purposes.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 38. Risk management (continued)

#### Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Council has the ultimate responsibility for liquidity risk management, and has established an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and cash flow requirements.

The municipality manages liquidity risk by maintaining adequate reserves and banking facilities. The Finance Department monitors the cash flow requirements on a regular basis.

The Municipality's investment portfolio consists of short term deposits and current accounts with a notice period of 30 days or less. Due to the short term nature of the portfolio a maturity analysis is not required.

#### Interest rate risk

Market risk is the risk that changes in market prices, such as interest rates will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Market risk consists primarily of Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipality does not enter into long term financing arrangements thereby minimising the interest rate cash flow risk exposures on long-term financing.

The exposure to Interest rate risk is limited as the municipality's investment portfolio is entirely cash based. The Municipality's primary focus is not to generate interest income but rather to preserve the capital value of the funds. There has been no change since the previous financial year to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

#### Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the municipality. Due to the nature of the entity's operations, the municipality has an obligation to provide services to all qualifying people in its area. As such, the municipality is not able to select only creditworthy counterparts.

Potential concentrations of credit rate risk consist mainly of investments, trade receivables and cash and cash equivalents.

Trade receivables comprise of a large number of consumers, dispersed across different industries and geographical areas. Trade receivables are presented net of an allowance for impairment.

The existing trade receivable portfolio has historically been significantly impaired as a result of a number of contributing factors, including an inaccurate and unreliable customer database. The municipality has started the process of cleansing its trade receivable portfolio to ensure completeness of its trade receivables. All policies affecting trade receivables have been reviewed and updated to assist the municipality in the cleansing process. Refer note 4 for more detailed information on the composition of the trade receivables portfolio.

Except for trade receivables which have already been impaired, the following financial assets are exposed to limited credit risk at year end:

Cash and cash equivalents (including investments) are held with the following counter parties:	2019	2018
First National Bank (Primary Bank)	17 306 047	6 069 682

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 39. Unauthorised expenditure

Opening balance	102 627 811	102 627 811
Less: Amount approved for write off by council	(102 627 811)	-
	-	102 627 811

Unauthorised expenditure relates to expenditure incurred which is in excess of the budgeted amount on the individual votes.

### 40. Fruitless and wasteful expenditure

Opening balance	6 773 371	6 582 841
Fruitless and wasteful expenditure - current year	184 028	190 530
Fruitless and wasteful approved for write off by Council	(6 773 371)	-
	184 028	6 773 371

#### Details / incidents of fruitless and wasteful expenditure relating to this period only

Interest on overdue accounts and penalties	184 028	190 530
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No fruitless and wasteful expenditure was recovered during the year, all fruitless and wasteful expenditure was written off by Council during the year.

### 41. Irregular expenditure

Opening balance	539 029 658	536 378 645
Add: Irregular Expenditure - current year movement	78 442 508	136 507 742
Less: Irregular expenditure - written off by council	(617 292 166)	(133 856 729)
	180 000	539 029 658

#### Details of irregular expenditure – current year

Bid evaluation discrepancies identified	-
Limitation of scope - No supporting documentation	176 305
No bid specification/adjudication minutes	194 724
No Municipal rates clearance certificate/lease agreement	11 620 885
Recurring Irregular expenditure -BAC composition - Non-compliance with SCM	64 143 609
Recurring irregular expenditure - Waste Collectors	2 306 985
	78 442 508

#### Analysis of Irregular Expenditure Balance - current year

Recurring from prior years	78 442 508
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### 42. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government - SALGA Fees

Opening balance	-	1 260 740
Current year subscription / fee	1 186 714	1 092 432
Amount paid - current year	(1 186 714)	(2 353 172)
	-	-

# MBHASHE LOCAL MUNICIPALITY (EC 121)

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## Notes to the Annual Financial Statements

Figures in Rand

### 42. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Contract awarded to close family members of person in the service of the state

1. During the year 2017/18 and 2018/19 awards were made to ICT Choice for the (i) Supply and delivery of Computers, (ii) Installation of Fibre and additional points, (iii) Renewal of 150 Cibecs licenses, the owner/director of ICT Choice Mr. S. Maqula is a spouse of Mrs N. Maqula who works at the Department of Human Settlements. The total value of all awards amount to R1 533 644.61 of which R16 030.63 relates to 2017/18

2. During the year 2018/19 awards were made to Bili Investments who is owned by Novumile Bili who is a mother to Nontyantyambo Mbola who works as a Executive secretary in the Municipal Managers Office, The total awards were amounting to R27 303.88 for the whole, and are all catering related.

#### Audit fees

Current year subscription / fee	4 488 287	3 081 478
Amount paid - current year	(4 488 287)	(3 081 478)
	-	-

#### PAYE and UIF

Current year subscription / fee	20 087 323	19 480 726
Amount paid - current year	(20 087 323)	(19 480 726)
	-	-

#### Pension and Medical Aid Deductions

Current year subscription / fee	18 494 507	14 086 472
Amount paid - current year	(18 494 507)	(14 086 472)
	-	-

#### VAT

VAT receivable	6 535 673	3 818 791
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned. Refer to note 43

Incident	-	370 310
Emergency	299 733	761 536
Sole Supplier	1 689 961	9 183 519
Other exceptional cases (Impractical)	1 989 694	10 315 365

### 43. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the Council and includes a note to the annual financial statements.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 44. Budget differences

#### Material differences between budget and actual amounts

44.1 Service charges reflected a negative variance of 45%, this is a result of government properties that were added on SV4 however they are rural schools and are therefore not billed for refuse removal. The refuse collection is only billed on the three towns.

44.2 Rental of facilities is showing a negative variance, this is caused by the poor collection rate on proceeds from plant even though there has been great improvement on lease rentals. Due to this poor collection rate, the municipal council decided to utilize the plant to enhance and accelerate roads maintenance as per the municipality's roads maintenance plan.

44.3 This relates to interest received on outstanding debtors as per the municipality's Credit Control and Debt Collection Policy.

44.4 The positive variance relates to an improved collection rate by the municipality in terms non-billable revenue sources with some revenue sources collecting more than 100%

44.5 The variance is below the significance threshold of 10%

44.6 The positive variance can be attributed to government properties that have been added to the billing system.

44.7 The positive variance can be attributed to the conservative approach taken by council at mid-year to adjust its budget based on the performance and to ensure that its projections are realistic.

44.8 The variance is below the significance threshold of 10%.

44.9 The negative variance can be attributed to the tough economic conditions causing traffic offenders to be unable to pay their fines

44.10 The variance is below the significance threshold of 10%.

44.11 The variance is below the significance threshold of 10%.

44.12 The projected budget was based on the asset register, however there were adjustments that were made during the year which resulted to the negative variance. The actual depreciation is within the approved budget.

44.13 The actual expenditure relates to interest and penalties incurred on overdue accounts

44.14 This variance relates to the write-offs and adjustments that were made during the year in enhancing the accuracy of the billing system. Also included in the actual balance is the impairment debt provision raised on the potential uncollectable debt. The budget for this could not be projected since its based on the collection trends.

44.15 The negative variance on general expenditure is caused by strict monitoring of cash flow projections to ensure that departments spend within their approved budgets.

44.16 The actual amount relates to refuse removal which is included under receivables from non-exchange transactions in the budget. When budgeting the municipality expects to collect the whole amount billed.

44.17 Actual amount relates to the credit amount from SARS for the EMP 201

44.18 The municipality budgeted for VAT under other income on the SOFP and the actual amount relates to the VAT receivable at year-end

44.19 Actual amount has taken impairment into consideration for debtors. The municipality expects to collect the whole amount billed when budgeting.

44.20 Actual amount has taken impairment into consideration for debtors. The municipality expects to collect the whole amount billed when budgeting.

44.21 The positive variance is a sign of an improvement for the municipality in terms of reserves

44.22 The actual balance relates to the intangible assets held by the municipality